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Analysis of Management of Working Capital in Syncom Formulations in Indore

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Abstract :

The pharmaceutical industry is currently going through changes that affect the way it performs its research, manufacturing, and regulatory activities . The impact of these changes on the approaches to quality risk management requires more understanding. In this paper, Pharmaceutical industries have been characterized as firms that discover, develop, manufacture, distribute, and market pharmaceutical products. From the technical point of view there continues to be difference of opinion about definition of working capital. Gross working capital concept emphasises on the quantitative aspect, while net working concept highlights upon qualitative aspect.

Key Words: pharmaceutical, working capital Management

Every running business needs working capital. Even a business which is fully equipped with all types of fixed assets required is bound to collapse without (i) adequate supply of raw materials for processing; (ii) cash to pay for wages, power and other costs; (iii) creating a stock of finished goods to feed the market demand regularly; and, (iv) the ability to grant credit to its customers. All these require working capital. Working capital is thus like the lifeblood of a business. The business will not be able to carry on day-to-day activities without the availability of adequate working capital. So working capital is life blood for a businessCompany's investment in total current assets signifies the gross working capital. Amount of current liabilities is not considered and hence not deducted from total current assets.

PHARMACEUTICAL INDUSTRY IN INDIA

Working capital is that part of capital of a business enterprise which is required for acquiring current assets. The management of working capital is an important function of finance manager since it is very difficult to determine the amount of working capital at a particular production level. This is a crucial problem faced by finance manager. This problem differs from management of fixed assets. Fixed assets are purchased to be retained in the business for a long period of time. These assets earn over the life. On the other hand short term assets lose their identity quickly, generally within a operating cycle not more than a year.

MAJOR PHARMACEUTICAL COMPANIES

India based pharmaceutical companies are not only catering to the domestic market and fulfilling the country's demands, they are also exporting to around 220 countries. They are exporting high quality, low cost drugs to countries such as the US, Kenya, Malaysia, Nigeria, Russia, Singapore, South Africa, Ukraine, Vietnam, and more. Currently, the US is the biggest customer and accounts for 22 percent of the sector's exports, while Africa accounts for 16 percent and the Commonwealth of Independent States (CIS) places around eight percent of orders, as per Research and Market report.

For most of the pharmaceutical companies, domestic business contributes in the range of 20-50% of the overall revenue. US business contribution stands at 20-30% and remaining comes from the rest of world markets.

Leading Indian Players by Sales

Company	**Sales in US $Million**	**Year End**
Cipla	6,368.06	March 2011
Ranbaxy Lab	5,687.33	December 2010
Dr Reddy's Labs	5,285.80	March 2011
Sun Pharma	1,985.78	March 2011
Lupin Ltd	4,527.12	March 2011
Aurobindo Pharma	4,229.99	March 2011
Piramal Health	1,619.74	March 2011
Cadila Health	2,213.70	March 2011

Introduction of Syncom Formulations

Incorporated as a private limited company in 1988, Syncom Formulations (India) Ltd was converted into a public limited company in June, 1992. The company set up a manufacturing facility at Palghar, Thane to produce pharmaceutical formulations. Commercial production commenced in Apr.'89. Promoters are KedarmalBankda, Vijay Kumar Bankda and Ajay Kumar Bankda. In addition to pharmaceutical formulations in the form of tablets, capsules, liquids and dry powders, the company also manufactures injectibles and ear/eye drops on a loan licence basis. In 1994, the company undertook an expansion programme of setting up a new plant for manufacturing pharmaceutical formulations at Pithampur, Madhya Pradesh. The project which was financed through a public issue made in Jan.'94 was completed in 1995. During the year 1997-98, the Company has further diversified into Ethical Operations by introducing the range of prescription formulations. During the year 1998-99 there has been huge expansion of installed capacity and production base. Further the company plans introduction of products in the generic, OTC and ethical divisions. The export earnings have also registered a growth of more than 100%. During the year 1999-2000, the company and its associates have received export orders worth Rs. 700.00 lacs against advance payment and hence better turnover is expected during the year. The company presently exports goods to Guine, Ghana, Kenya, Tanzania, Nigeria in Africa, Azberjan, Nepal and Srilanka in Asia. The company has been approved as a supplier to Central ESI Hospitals and registration of defense services is in its final stages, as a result of which will generate substantial sales volume. Keeping in view the shifting consumer preferences for the use of herbal products, the company is aggressively manufacturing and marketing its herbal products like Edicare, AttomMegacaps, Ecziguard and Yas antacid salt. Working capital cycle involves conversions and rotation of various constituents/ components of the working capital. Initially 'cash' is converted into raw materials. Subsequently, with the usage of fixed assets resulting in value additions, the raw materials get converted into work in process and then into finished goods. When sold on credit, the finished goods assume the form of debtors who give the business cash on due date. Thus 'cash' assumes its original form again at the end of one such working capital cycle but in the course it passes through various other forms of current assets too. This is how various components of current assets keep on changing their forms due to value addition. As a result, they rotate and business operations continue. Thus, the working capital cycle involves rotation of various constituents of the working capital. While managing the working capital, two characteristics of current assets should be kept in mind viz. (i) short life span, and (ii) swift transformation into other form of current asset. Each constituent of current asset has comparatively very short life span. Investment remains in a particular form of current asset for a short period. The life span of current assets depends upon the time required in the activities of procurement; production, sales and collection and degree of synchronization among them. A very short life span of current assets results into swift transformation into other form of current assets for a running business. These characteristics have certain implications:

(i) Decision regarding management of the working capital has to be taken frequently and on a repeat basis.

(ii) The various components of the working capital are closely related and mismanagement of any one component adversely affects the other components too.

(iii) The difference between the present value and the book value of profit is not significant.

The demand for pharmaceutical products in India is significant and is driven by low drug penetration, rising middle-class & disposable income, increased government & private spending on healthcare infrastructure, increasing medical insurance penetration etc.

The Indian pharmaceutical industry is growing at about 8 to 9 percent annually according to "A Brief Report Pharmaceutical Industry in India," published in January 2011. The Pharmaceutical industry in India meets around 70% of the country's demand for bulk drugs, drug intermediates, pharmaceutical formulations, chemicals, tablets, capsules, orals and inject able. There are approximately 250 large units and about 8000 Small Scale Units, which form the core of the pharmaceutical industry in India (including 5 Central Public Sector Units).

DATA ANALYSIS & INTERPRETATION

WORKING CAPITAL INDICES AND TREND VALUES

Every business needs investment to procure fixed assets, which remain in use for a longer eriod. Money invested in these assets is called 'Long term Funds' or 'Fixed Capital'. Business also needs funds for short-term purposes to finance current operations. Investment in short term assets like cash, inventories, debtors etc., is called 'Short-term Funds' or 'Working Capital'. The 'Working Capital' can be categorized, as funds needed for carrying out day-to-day operation of the business smoothly. Working capital is a financial matrix which represents operating activity available to a business, organization, or other entity, including

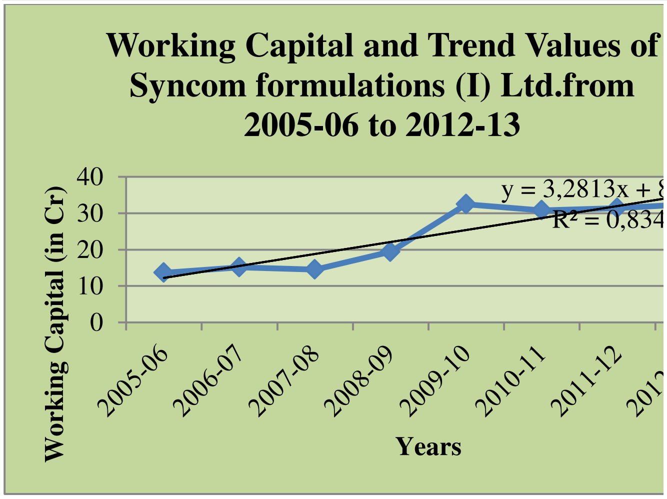
governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital.

Syncom Formulations (India) Ltd.

Table 5.1

Working Capital, Indices and Trend Values of Syncom formulations (I) Ltd. from 2005-06 to 2012-13

Item	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Working capital	13.68	15.14	14.54	19.43	32.47	30.81	31.45	32.57
Indices	100	110.67	106.29	142.03	237.36	225.22	229.8995	238.09
Trend Values	12.42	15.26	18.09	20.93	26.60	29.43	32.26	35.10



The indices of working capital marked on increasing trend as shown in table 5.3. The indices of working capital increased significantly and reached to 142.03 in 2008-09 as compared to 106.29 in 2007-08, 220.60 in 2009-10 as compared to 141.58 of 2008-09 and again reached to 237.36 and 238.09 in 2009-10and 2012-13 respectively. Indices of working capital increased due to loans and advances. The main reason of rise in working capital during 2010-11 was mainly due to sharp increase in inventories

from 7.74 to 11.49 and decrease in current liabilities from 23.03 to 19.60. But contradictory decrease in 2011-12 at 80.12 and in 2012-13 at 55.12 which shows decrease in current assets and increase in

current liabilities during both years. Now

it is apparent from table 5.3 that the indices of working capital of Syncom Formulations (India) Ltd. have an increasing trend during the period of study.The least square trend values of working capital of Syncom Formulation (India) Ltd. are also shown in table 5.3. The average annual increase in working capital comes to Rs. 2.84 Crores. The trend values of working capital are observed negative in 2007-08, 2008-09, 2011-12 and in 2012-13. However, the deviations in other years are positive. It was due to low increase in the level of current assets. The current assets, of the company increased mainly due to a sharp increase in inventories and loans and advances.In order to test the significance between the difference of actual values and trend values of working capital in the selected pharmaceutical companies in Madhya Pradesh, the chi-square test has been applied. There is a vast difference between the values i.e. 2.50 and 14.07 at 5 percent level of significance. Thus, there is significant difference between the actual and the calculated trend values.

Table 5.2

Item	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Current Assets	25.56	27.80	36.26	30.86	60.44	57.46	54.14	65.68
Indices	100.00	108.76	141.86	120.74	236.47	224.81	211.82	256.97
Trend Values	24.01	29.20	34.39	39.58	49.97	55.16	60.35	65.54

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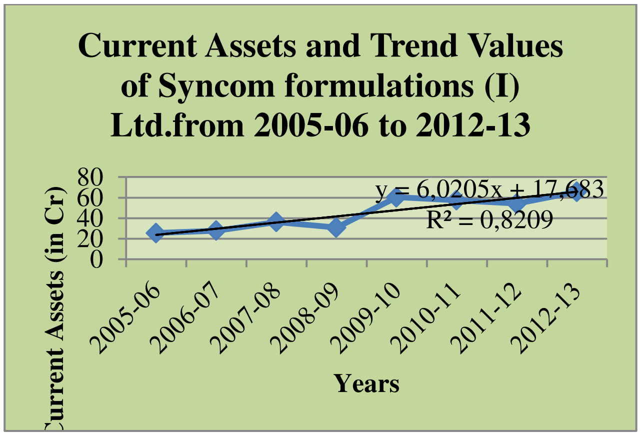
Current Assets, Indices and Trend Values of Syncom Formulations (India) Ltd.from 2005-06 to 2012-13



The indices of current assets in Syncom Formulations India Ltd. depicted a Zigzag trend throughout the period of study. Indices of current assets increased significantly and reached to highest 236.47 in 2009-10. But in 2010-11 slight decrease in the indices due to decrease in current assets as compared to 2009-10. The indices of current assets in Syncom Formulations Ltd. marked a fluctuating trend during period of study due to the increasing and decreasing values of current assets.The least square trend values of current assets are shown in table 5.7. Current assets trends are increasing by Rs. 5.19Crore per annum. The Trend values of current assets differed materially in 2008-09 and in 2010-11. The deviations were negative during 2007-07, 2008-09 and in 2011-12, while they were positive in the rest of the years.In Syncom Formulations Ltd., the difference between the actual and trend values of current assets is insignificant as the calculated value of chi-square came to5.12 as compared to table value14.07 at 5% significance level

Findings and Conclusion

Pharmaceutical companies have long been the envy of other industries, given their strong balance sheets, high operating margins, and access to cash. As a result of these competitive advantages, members of the industry have historically paid little attention to releasing cash from their working capital, which is commonly defined as the difference between a company's current assets and its current liabilities.In the past, pharmaceutical companies were willing to operate with high levels of inventory and readily dealt with the related costs, as they did not want to run the risk of disrupting the delivery of medicines and missing a profitable sale. As a result, companies placed little emphasis on pursuing best practices in forecasting or other ways to wring greater returns from assets and investments that could free up cash. As followers of the pharmaceutical industry know, times are quickly changing. The industry faces significant challenges in different areas related to patent expirations, pricing and regulatory pressures, thin late-stage pipelines, shifting demographics, and efficacy issues. Faced with these challenges, members of the industry are now seeking to preserve the value they have created while at the same time executing new transformational strategies to create value. Although much of the focus in recent years has been on the industry's cost-cutting measures, the active management of working capital is increasingly becoming a key element of this transformative effort. Working capital is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Gross working capital equals to current assets. Net working capital is calculated as current assets minus current liabilities. It is a derivation of working capital, which is commonly used in valuation techniques such as DCFs (Discounted cash flows). If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit. A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. The working capital cycle is the amount of time it takes to turn the net current assets and current liabilities into cash. The longer the cycle is, the longer a business is tying up capital in its working capital without earning a return on it. Therefore, companies strive to reduce its working capital cycle by collecting receivables quicker or sometimes stretching accounts payable.

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